

COUNTY OF SAN BERNARDINO
CALIFORNIA
SPECIAL DISTRICTS
AUDIT REPORT
CRESTLINE SANITATION DISTRICT
FOR THE FISCAL YEAR ENDED JUNE 30, 2005

Prepared by:

Internal Audits Section
Office of the Auditor/Controller-Recorder
October 7, 2005

**County of San Bernardino Special Districts
Crestline Sanitation District**

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ELIZABETH A. STARBUCK
Assistant Auditor/Controller-Recorder
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Independent Auditor's Report

October 7, 2005

Tom Sutton, Director
Office of Special Districts
157 W. Fifth Street, Second Floor
San Bernardino, CA 92415-0450

**SUBJECT: AUDIT OF CRESTLINE SANITATION DISTRICT FOR THE FISCAL YEAR
ENDED JUNE 30, 2005**

Introductory Remarks

In compliance with Section 26909 of the California Government Code, we have completed an audit of Crestline Sanitation District for the fiscal year ended June 30, 2005.

Auditor's Report

We have audited the accompanying financial statements of the business-type activities of Crestline Sanitation District (District), a component unit of the County of San Bernardino, California, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the minimum audit requirements and reporting guidelines for California Special Districts required by the Office of the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

AudRpt/Tom Sutton, Director
Office of Special Districts
October 7, 2005
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In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District as of June 30, 2005, and the respective changes in its financial position and cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America as well as accounting systems prescribed by the State Controller's Office and the state regulations governing Special Districts.

The District has not presented the *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By:

Howard M. Ochi, CPA
Chief Deputy Auditor

Quarterly copies to:

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Board of Supervisors
Grand Jury (2)

Audit File (3)

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County of San Bernardino
Crestline Sanitation District
Balance Sheet
Proprietary Funds
June 30, 2005

	<u>Enterprise Fund</u> <u>Sewer</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 6,626,318
Accounts receivable	284,805
Taxes receivable	52,968
Interest receivable	41,874
Due from other governments	113,255
Total current assets	<u>7,119,220</u>
Noncurrent assets:	
Capital assets:	
Land	213,308
Construction in progress	292,741
Structures and improvements	22,126,376
Equipment and vehicles	1,379,644
Less accumulated depreciation	<u>(14,969,814)</u>
Total noncurrent assets	9,042,255
Total assets	<u>\$ 16,161,475</u>
LIABILITIES	
Current liabilities:	
Accounts payable	\$ 251,175
Due to other governments	110
Current portion of loans payable	107,975
Total current liabilities	<u>359,260</u>
Noncurrent liabilities:	
Noncurrent portion of loans payable	<u>1,140,390</u>
Total noncurrent liabilities	1,140,390
Total liabilities	<u>1,499,650</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,793,890
Restricted	232,094
Unrestricted	6,635,841
Total net assets	<u>14,661,825</u>
Total liabilities and net assets	<u>\$ 16,161,475</u>

The notes to the financial statements are an integral part of this statement.

County of San Bernardino
Crestline Sanitation District
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the Fiscal Year Ended June 30, 2005

	Enterprise Fund Sewer
OPERATING REVENUES	
Charges for services	\$ 1,647,105
Other services	103
Total operating revenues	<u>1,647,208</u>
OPERATING EXPENSES	
Salaries and benefits	1,594,556
Professional services	141,781
Services and supplies	595,491
Utilities	70,774
Other operating expenses	3,599
Depreciation	567,752
Total operating expenses	<u>2,973,953</u>
Operating Income (Loss)	<u>(1,326,745)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest and investment revenue	134,784
Property taxes	518,288
Special Assessments	153,519
Other taxes	44,608
State aid	184,254
Gain on sale of fixed assets	1,600
Other nonoperating revenues	135,933
Interest expense	(22,919)
Total nonoperating revenues (expenses)	<u>1,150,067</u>
Change in net assets	(176,678)
Net assets - beginning	<u>14,838,503</u>
Net assets - ending	<u>\$ 14,661,825</u>

The notes to the financial statements are an integral part of this statement.

**County of San Bernardino
Crestline Sanitation District
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2005**

CASH FLOWS FROM OPERATING ACTIVITIES

Cash received from user charges	\$ 1,520,845
Cash payments to suppliers of goods and services	(586,811)
Cash payments to employees for services	(1,785,385)
Net cash provided (used) by operating activities	<u>(851,351)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

Taxes received	716,415
Grants received	184,254
Other revenue	135,933
Net cash provided (used) by noncapital financing activities	<u>1,036,602</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Proceeds from sale of fixed assets	1,600
Acquisition of fixed assets	(75,658)
Principal paid on loan payable	(85,056)
Interest paid on loan payable	(22,919)
Net cash provided (used) by capital and related financing activities	<u>(182,033)</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sale and maturities of investments	134,784
Interest revenue	134,784
Net cash provided by investing activities	<u>269,568</u>

Net increase (decrease) in cash and cash equivalents	138,002
Balance -- beginning of the year	6,488,316
Balance -- end of the year	<u>\$ 6,626,318</u>

Reconciliation of operating income (loss) to net cash provided (used) by operating activities:

Operating income (loss)	\$ (1,326,745)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	567,752
Change in Change in assets and liabilities:	
Receivables, net	(126,363)
Accounts and other payables	34,005
Net cash provided by operating activities	<u>\$ (851,351)</u>

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Crestline Sanitation District (District) is a special district located within the County of San Bernardino. The District has governmental powers as established by the San Bernardino County Government Charter (County). The County was established in 1852 as a legal subdivision of the State of California.

The District was established by an act of the Board of Supervisors of the County of San Bernardino on January 21, 1946, to provide sewer services to the Lake Gregory area. The District operates and maintains three treatment plants, 90 miles of collection systems, 14-mile effluent outfall line, and an effluent disposal site. The District currently serves 5,492 residential and commercial connections.

The District is a component unit of the County. Component units are legally separate organizations for which the Board is financially accountable or other organizations whose nature and significant relationship with the County are such that exclusion would cause the County's financial statements to be misleading or incomplete. Financial accountability is defined as the appointment of a voting majority of the component unit's board, and (i) either the County's ability to impose its will on the organization or (ii) there is potential for the organization to provide a financial benefit to or impose a financial burden on the County.

The accompanying financial statements reflect only the accounts of Crestline Sanitation District and are not intended to present the financial position of the County taken as a whole.

Measurement focus, basis of accounting, and financial statement presentation

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Proprietary funds are reported using the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. The transactions of the District are accounted for on a flow of *economic resources measurement focus*. With this measurement focus, all assets and all liabilities associated with the operations are included on the balance sheet.

Property taxes are considered to be susceptible to accrual and have been recognized as revenues in the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the District's enterprise fund is charges to customers for sanitation services. Operating expenses for enterprise funds include the cost of salaries and benefits, services and supplies, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as nonoperating revenues and expenses.

All activities of the District are accounted for within a single proprietary (enterprise) fund.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

Agency funds are used to account for assets held by the District as an agent for individuals, private organizations, other governments and/or other funds. The funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations. The modified accrual basis of accounting is used for the agency fund. The fund is used to account for the accumulation of resources for, and payment of, the bonds issued under the Improvement Act of 1915 for certain sewer improvements. This is considered a clearing account and should not be reported in agency funds. Therefore, it is reported as assets in the appropriate proprietary funds.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - *Continued*

Cash and cash equivalents include the cash balances of substantially all funds, which are pooled and invested by the County Treasurer to increase interest earnings through investment activities. Investment activities are governed by the California Government Code Sections 53601, 53635, and 53638 and the County's Investment Policy. Authorized investments include U. S. Government Treasury and Agency securities, bankers' acceptances, commercial paper, medium term notes, mutual funds, repurchase agreements, and reverse repurchase agreements.

Interest income, and realized gains and losses earned on pooled investments are deposited quarterly to the District's accounts based upon the District's average daily deposit balances during the quarter. Unrealized gains and losses of the pooled investments are distributed to the District annually. Cash and cash equivalents are shown at fair value as of June 30, 2005.

Receivables

The allowance for doubtful accounts is subtracted from gross receivables on the Balance Sheet to show the net receivable balance. All accounts receivables are shown net of an allowance for uncollectibles when applicable.

Property taxes

Secured property taxes are levied in two equal installments, November 1 and February 1. They become delinquent with penalties on December 10 and April 10, respectively. The lien date is January 1 of each year. Unsecured property taxes are due on the March 1 lien date and become delinquent with penalties on August 31.

Capital assets

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the enterprise fund. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (for improvements to land and structures and equipment) and have an estimated useful life in excess of one (1) year. Structures with an initial cost of \$100,000 are considered capital assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Structures and Improvements	20 – 45
Utility Plant in Service	45
Equipment and Vehicles	5 – 15

Net assets

Net assets comprise the various net earnings from operating and nonoperating revenues, expenses and contribution of capital. Net assets are classified in the following three components:

Invested in capital assets, net of related debt – This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net assets consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations, of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net assets consist of net assets of the District that are not restricted for any project or other purpose.

Employee compensated absences

Accumulated vacation, holiday benefits, sick pay and compensatory time are recorded as an expense and liability as the benefits are earned. Compensated absence liabilities are recorded as a noncurrent liability.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – *Continued*

Employee compensated absences

The District is not obligated to pay for unused sick leave if an employee terminates or retires before 10 years of continuous service. Since the beginning of FY 2005, the District's payroll has been paid through Water & Sanitation Division of Special Districts Department. Therefore, the balance of employee compensated absences of Crestline Sanitation District was closed to the Retained Earnings of the District.

Compensated absences activity for the year ended June 30, 2005 was as follows:

<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
\$110,389	\$0	\$110,389	\$0

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: ACCOUNTS RECEIVABLE

The allowance for doubtful accounts is subtracted from gross receivables on the Balance Sheet to show the net receivable balance. All accounts receivables are shown net of an allowance for uncollectibles when applicable. The district's bad debt expense was minimal. There was no allowance for doubtful accounts and the district opted to not record bad debt expense.

Accounts receivable balance for the year ended June 30, 2005 was as follows:

<u>Gross Receivables</u>	<u>Allowance for Doubtful Accounts</u>	<u>Ending Balance</u>
\$284,805	\$0	\$284,805

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 3: CAPITAL ASSETS

Capital assets activities during the year were as follows:

	Balance July 1, 2004	Additions	Deletions	Balance June 30, 2005
Capital assets, not being depreciated:				
Land	\$ 213,308	\$ -	-	\$ 213,308
Construction in progress	281,609	11,132		292,741
Total capital assets, not being depreciated	494,917	11,132	-	506,049
Capital assets, being depreciated:				
Land improvements	17,035,282	7,634	-	17,042,916
Structures	5,083,460	-	-	5,083,460
Vehicles	1,064,386	50,157	(13,126)	1,101,417
Equipment	265,588	25,816	(13,177)	278,227
Total capital assets, being depreciated	23,448,716	83,607	(26,303)	23,506,020
Less accumulated depreciation for:				
Land improvements	(10,946,971)	(391,892)	-	(11,338,863)
Structures	(2,462,286)	(98,707)	-	(2,560,993)
Vehicles	(872,635)	(62,382)	13,126	(921,891)
Equipment	(146,473)	(14,771)	13,177	(148,067)
Total accumulated depreciation	(14,428,365)	(567,752)	26,303	(14,969,814)
Total capital assets, being depreciated, net	9,020,351	(484,145)	-	8,536,206
Capital assets, net	<u>\$ 9,515,268</u>	<u>\$ (473,013)</u>	<u>\$ -</u>	<u>\$ 9,042,255</u>

Construction in Progress

Construction in progress represents the following projects:

Project Title	Budget	Expenses as of 6/30/05	Projected Completion Date
Facility Expansion	\$ 865,000	\$ 274,480	2006
Huston Creek Facility Expansion	50,000	4,545	2006
Outfall System Study for handling effluent runoff	50,000	4,545	2006
Drill Well Monitor	102,437	5,098	2006
New Telemetry Systems	148,394	4,073	2006
		<u>\$ 292,741</u>	

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 4: LOAN PAYABLE

On January 16, 1997, the District received a revolving fund loan from The State Water Resources Control Board in the amount of \$2,159,508. The proceeds of the loan were used to fund construction of the Huston Creek treatment plant effluent storage reservoir. Of the \$2,159,508 loan amount, \$359,905 was funded by local matching funds. The loan will be repaid in March 2018. At June 30, 2005, the outstanding principal balance is \$1,248,365. A summary of loan payments for the remaining fiscal years is as follows:

Year Ending June 30,	Principal	Interest	Total
2006	\$ 86,518	\$ 21,457	\$ 107,975
2007	88,005	19,970	107,975
2008	89,518	18,457	107,975
2009	91,057	16,918	107,975
2010-2014	479,303	60,572	539,875
2015-2018	413,964	17,940	431,904
Total	\$ 1,248,365	\$ 155,314	\$ 1,403,679

NOTE 5: LONG-TERM OBLIGATIONS

The following is a summary of long-term liabilities transactions for the year ended June 30, 2005:

	Principal Balance July 1, 2004	Additions	Retirements	Principal Balance June 30, 2005	Amounts Due Within One Year
Loan Payable	\$ 1,333,421	\$ -	\$ (85,056)	\$ 1,248,365	\$ 107,975
Total long-term liabilities	\$ 1,333,421	\$ -	\$ (85,056)	\$ 1,248,365	\$ 107,975

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 6: RETIREMENT PLAN

Plan Description

The San Bernardino County Employees' Retirement Association (SBCERA) is a cost-sharing multiple-employer defined benefit pension plan (Plan) operating under the California County Employees Retirement Act of 1937 (1937 Act). It provides retirement, death, and disability benefits to members. Although legally established as a single employer plan, the City of Big Bear Lake, the City of Chino Hills, the California State Association of Counties, the San Bernardino County Law Library, Crest Forest Fire Protection District, Mojave Desert Air Quality Management District (MDAQMD) and the South Coast Air Quality Management District (AQMD), were later included, along with the County of San Bernardino (County), and are collectively referred to as the Participating Members. The plan is governed by the San Bernardino Board of Retirement under the 1937 Act. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. SBCERA issues a stand-alone financial report, which may be obtained by contacting the Board of Retirement, 348 W Hospitality Lane - 3rd floor, San Bernardino, California 92415-0014.

Fiduciary Responsibility

The Retirement Association is controlled by its own board, the Retirement Board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income. The Retirement Association publishes its own Comprehensive Annual Financial Report and receives a separate independent audit. The Retirement Association is also a legally separate entity from the County and not a component unit. For these reasons, the County's Comprehensive Annual Financial Report excludes the Retirement Association pension trust fund as of June 30, 2005.

Funding Policy *(amounts reported in thousands)*

Participating members are required by statute (Sections 31621, 31621.2 and 31639.25 of the California Government Code) to contribute a percentage of covered salary bases on certain actuarial assumptions and their age at entry to the Plan. Employee contribution rates vary according to age and classification (general or safety). Members are required to contribute 8.37% - 12.28% for general members and 10.23% - 14.24% for safety members, of their annual covered salary of which the County pays approximately 7%. County of San Bernardino employer contribution rates are as follows: County General 8.44%, County safety 18.01%. All employers combined are required to contribute 14.01% of the current year covered payroll. For 2005, the County's annual pension cost of \$141,450 was equal to the County's required and actual contributions. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. Employer rates are determined pursuant to Sections 31453 of the 1937 Act.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 6: RETIREMENT PLAN – Continued

The County's annual pension cost and prepaid asset, computed in accordance with GASB 27, Accounting for Pensions by State and Local Governmental Employers, for the year ended June 30, 2005, were as follows:

Annual Required Contribution (County fiscal year basis)	\$ 141,450
Interest On Pension Assets	(34,779)
Adjustment To The Annual Required Contribution	38,135
Annual Pension Cost	144,806
Annual Contributions Made	141,450
Increase/(Decrease) in Pension Assets	(3,356)
Pension Asset, Beginning of Year (As Restated)	848,238
Pension Asset, End of Year	<u>\$ 844,882</u>

The following table shows the County's required contributions and percentage contributed, for the current year and two preceding years:

Year Ended June 30,	Annual Pension Cost		Percentage Contributed
	SBCERA	County	
2003	\$ 68,361	\$ 59,673	100%
2004	652,325	540,106	100%
2005	161,906	141,450	100%

The County, along with the AQMD, issued Pension Refunding Bonds (Bonds) in November 1995 with an aggregate amount of \$420,527. These Bonds were issued to allow the County and the AQMD to refinance each of their unfunded accrued actuarial liabilities with respect to retirement benefits for their respective employees. The Bonds are the obligations of the employers participating in the Plan and the assets of the Plan do not secure the Bonds. The County's portion of the bond issuance was \$386,266. The current amount outstanding at June 30, 2005 is \$439,539.

On June 24, 2004, the County issued its County of San Bernardino Pension Obligation Bonds, Series 2004 A (Fixed Rate Bonds), its County of San Bernardino Pension Obligation Bonds, Series 2004 B (Auction Rate Bonds), and its County of San Bernardino Pension Obligation Bonds, Series 2004 C (Index Bonds) in a respective aggregate principal amounts of \$189,070, \$149,825, and \$125,000. The Bonds were issued to finance the County's share of the unfunded accrued actuarial liability of the S.B.C.E.R.A. The current amount outstanding at June 30, 2005 is \$463,895.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 7: FEDERAL AND STATE GRANTS

The District may receive funds from various Federal and State agencies. The grant programs are subject to audit by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantors cannot be determined at this time, although the District expects such amounts, if any, to be immaterial.

NOTE 8: SELF INSURANCE

The County has self-insurance programs for public liability, property damage, unemployment insurance, employee dental insurance, hospital and medical malpractice liability, and workers' compensation claims. Public liability claims are self-insured for up to \$1 million per occurrence. Excess insurance coverage over the Self-Insured Retention (SIR) up to \$25 million is provided through a Risk Pool Agreement with California State Association of Counties (CSAC) Excess Insurance Authority (EIA) Liability Program II. Workers' compensation claims are self-insured up to \$2 million per occurrence, and covered by CSAC EIA for up to \$10 million for employer's liability, and up to \$50 million for workers' compensation per occurrence. Property damage claims are insured on an occurrence basis over a \$25,000 deductible, and insured with CSAC EIA Property Program.

The County supplements its self-insurance for medical malpractice claims with CSAC EIA, which provides annual coverage on a claim made form basis with a SIR of \$1 million for each claim. Maximum coverage under the policy is \$11.5 million per claim with an additional \$10 million in limits provided by the CSAC EIA General Liability II Program.

All public officials and County employees are insured under a blanket Comprehensive Disappearance, Destruction, and Dishonesty policy covering County monies and securities, also with CSAC EIA with a \$100,000 deductible, and excess limits up to \$10 million per occurrence.

The activities related to such programs are accounted for in the Division except for unemployment insurance, and employee dental insurance, which are accounted for in the General Fund. The IBNR and IBNS liabilities stated on the Division's balance sheet are based upon the results of actuarial studies, and include amounts for allocated and unallocated loss adjustment expenses. The liabilities for these claims are reported using a discounted rate of 3.50%. It is the Division's practice to obtain actuarial studies on an annual basis.

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 8: SELF INSURANCE - *Continued*

The Division has a risk management investment program agreement with the Bank of New York to finance the self-insured general liability, automobile liability, workers' compensation, and medical malpractice programs. The Division's investment in the agreement totaled \$47.3 million at June 30, 2005.

The total claims liability of \$115.7 million reported at June 30, 2005 is based on the requirements of GASB Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Changes in the claims liability amount in fiscal years 2004 and 2005 were:

Fiscal Year	Beginning of Fiscal Year Liability	Current-Year Claims and Changes in Estimates	Claims Payments	Balance at Fiscal Year-End
	(in thousands)	(in thousands)	(in thousands)	(in thousands)
2003-04	\$93,802	\$45,128	\$(37,221)	\$101,709
2004-05	\$101,709	\$44,309	\$(30,304)	\$115,714

NOTE 9: TRANSFERS IN/OUT

Interfund Transfers In/Out transactions are used to close out a fund, reimburse an operating fund, and transfer cash between operating funds and capital project funds. At June 30, 2005, the District made the following Interfund Transfers In and (Out):

FUND	PURPOSE	AMOUNT
EGS To ENG, CIG, CJL	to fund capital projects from reserves	\$ 1,179,089.00
EGV To EGS operations Fund	to fund debt service made by EGS	108,000
EGV To EGS 04/05 Budget	to fund capital projects thru EGS	13,770
EGY To EGS 04/05 Budget	to fund capital projects thru EGS	1,192,859
CIG From EGS 04/05 Budget	to fund capital projects from reserves	(415,589)
CJL From EGS 04/05 Budget	to fund capital projects from reserves	(750,000)
EGS From EGV Expansion Fund	to fund debt service made by EGS	(108,000)
EGS From Reserves 04/05 Budget	to fund capital projects thru EGS	(1,206,629.00)
ENG From EGS 04/05 Budget	to fund capital projects from reserves	(13,500.00)
Net Interfund Transfers		\$ -

**County of San Bernardino
Crestline Sanitation District
Notes to Financial Statements
For the Fiscal Year Ended June 30, 2005**

NOTE 10: NET ASSETS

Net assets represent the difference between assets and liabilities. The net asset amounts were as follows:

Invested in Capital Assets, Net of Related Debt:

Net land, land improvements, infrastructure, construction in progress, structures and improvements, equipment and vehicles.	\$ 9,042,255
Less: Revolving loans payable	<u>(1,248,365)</u>
Restricted for Capital Assets	7,793,890

Restricted for:

Matured bonds held by Treasurer/Tax-Collector of the County of San Bernardino	232,094
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Unrestricted	<u>6,635,841</u>
Total Net Assets	<u><u>\$ 14,661,825</u></u>

NOTE 11: SPECIAL ASSESSMENTS – 1915 ACT BONDS

The District issued bonds under the Improvement Act of 1915 (Bonds) to finance certain sewer improvements. The District reports the Bonds according to the provisions of the Government Accounting Standards Boards Statement No. 6. All the District's bonds matured as of July 2, 1996. The portion of the matured Bonds held by the Treasurer/Tax-Collector of the County of San Bernardino amounting to \$232,094 is reported as restricted net assets.